

**WRITTEN TESTIMONY OF FRANK K. ROSS**  
**BEFORE THE**  
**U.S. DEPARTMENT OF TREASURY**  
**ADVISORY COMMITTEE ON THE AUDIT PROFESSION**

**June 3, 2008**  
**Washington, D.C.**

Chairman Levitt, Chairman Nicolaisen, Members of the Advisory Committee and other guests:

My name is Frank Ross. I am a retired partner from KPMG LLP, where I worked from 1966 to 1973 when I left to start the firm of Ross, Stewart and Benjamin, CPAs. I returned to KPMG in 1976 and became partner in 1977. I retired in 2003. At the time of my retirement, I served as a member of KPMG's Board of Directors, as the Mid-Atlantic area managing partner for audit and risk advisory services and as managing partner of the Washington, D.C. offices. In addition, since 1981, I have taught auditing and ethics courses at Howard University in Washington, DC as an adjunct professor and upon my retirement, I became a visiting professor. I also am proud that at an early stage of my career, in 1969, I was one of the founders of NABA, the National Association of Black Accountants, and served as its first president.

For the past four and one half years, I have also served as the director of The Howard University School of Business Center for Accounting Education (CAE), which helps prepare minority students and young minority professionals for careers in the accounting profession. CAE, established more than three decades ago, was reorganized in 2004 to provide minority students and young minority professionals the tools for long-term success as accounting professionals. CAE has established a number of specialized programs, including leadership skills-building workshops, networking opportunities, and coaching from seasoned professionals, to better prepare them for a successful transition into rewarding professional careers.

Recently, CAE conducted two detailed surveys of African American accountants, their attitudes toward the profession, their perceptions of their career opportunities, and their assessment of what it takes to move up the ladder at America's accounting firms. In partnership with the National Association of Black Accountants (NABA), CAE hosted a CPA Examination Summit in June 2007 to try to determine why relatively few African Americans choose to sit for the CPA exam and how to encourage a larger number

to pursue the CPA certification. I believe the surveys and the summit discussions offer some extraordinary insights into the challenges we face in attracting African Americans to the accounting profession, retaining them for the long haul, and providing them with a clearly defined path to advancement within the profession. I will share some of the key findings as part of my testimony today. For your review and consideration, I also have submitted to the Committee, the full survey results and the report generated by CAE entitled “Insights Into Increasing The Number of African American CPAs” from the CPA Summit.

I honestly believe that I offer a unique perspective. I am a man of color who entered a profession that was virtually all white; who earned my CPA license; and who worked inside a major accounting firm as an auditor for a range of clients in a variety of industries and of varying sizes for 37 years. I know what this profession looks like and feels like from the inside. I also know what this profession looks like from the perspective of the college campus – the accounting student and accounting faculty. I have worked as a professor of accounting for some 27 years. I have seen both the strengths and weaknesses of our system for educating accountants.

And, as you might imagine, I have viewed these experiences through the prism of a black man who would like to see my profession enriched by more people like me; and who wishes that more people like me would choose the accounting profession and experience the same satisfaction that I have enjoyed.

I would like to draw from my experiences and discuss with the Committee why so few African Americans are entering the accounting field, why even fewer are sitting for CPA exams or choosing to pursue career success with the nation’s audit firms, and also some of the things we can do about it.

To begin with, I would like to commend the Committee for its work to date. I have reviewed the draft report, particularly the section on Human Capital, and I am pleased to say that I believe the Committee is on the right track. I believe the Committee has correctly identified the challenges facing the auditing profession. I also believe the Committee has done an excellent job at pointing us towards some of the most critically needed adjustments so that our profession can continue to fulfill its public obligations.

My particular focus is the area of human capital and the need to expand the participation of minorities, especially African Americans, in the accounting profession. Given my long time service as a professor of accounting, I also have deep interest in the academic preparation we provide to aspiring accountants. Accordingly, I will spend the bulk of my time in commenting on Recommendations 2 and 3, which focus, respectively, on minority recruitment and retention by the accounting profession and on ensuring a supply of qualified accounting faculties at America's colleges and universities.

As a stage-setter for that discussion, I would like to share my enthusiastic support for Recommendation 1, which calls for a dynamic curricula that continuously evolves to meet the needs of today's marketplace. Accountants and auditors in 2008 are faced with a world that is already very different from the one that I dealt with when I retired just four-and-a half years ago. That was before fair value accounting, before IFRS, before XBRL, and before the full implementation of Sarbanes-Oxley. The financial world will continue to evolve -- possibly at an even faster pace. As the Committee has correctly observed, the education of accounting professionals must evolve right along with the markets.

I believe that Recommendation 2 – to “improve the representation and retention of minorities in the auditing profession so as to enrich the pool of human capital in the profession” – reflects one of the profession's higher priorities. Minorities, especially African Americans, are under-represented in the accounting profession, particularly at the managerial and partnership levels. As the Committee notes, this under-representation is unacceptable both for the health of our society and the health of our business. Further, just as training and education should evolve to reflect the marketplace, the ethnic makeup of our profession should change to reflect a globalized economy in which we are being asked to serve an increasingly diverse set of clients. As the Committee says: every participant in the financial services and investor community, in academia, and within the accounting profession should implement a broad range of programs, practices and curricula designed to attract and retain minorities.

I also wish to commend the Committee on its specific sub-recommendations:

- To recruit minorities for auditing from other disciplines and careers;
- To work more closely with community colleges, which are accessible gateways for many minority students into post-secondary education;

- To strengthen the ties between the profession and Historically Black Colleges and Universities by expanding the use of cross-sabbaticals and internships; and
- To increase of numbers of minority candidates for accounting doctoral degrees.

I think each of these recommendations touches on underutilized opportunities. At times, I think our profession has not been creative enough in identifying where to find minority candidates and how to motivate them. Adopting these recommendations can help to rectify those shortcomings.

But recommendations are just words on paper until we put them into practice. I believe the success or failure of efforts to recruit and retain minorities will ultimately turn on the level of *commitment* from within the profession and the ability to *sustain* the commitment year-in and year-out for many, many years to come.

All of America's large accounting firms initiated minority-recruitment efforts years ago. CPA firms have generally succeeded in attracting larger numbers of Americans of Asian descent. The number of Hispanic and African American hires has remained relatively low, although hires of African Americans by all CPA firms rose sharply to 8 percent in 2007, according to new AICPA data. In 2004, the last time AICPA compiled this data, African Americans accounted for just 3 percent of new hires. If sustained, that climb in new hires represents progress. On the other hand, the number of new Hispanic hires fell to 4 percent last year from 8 percent three years earlier<sup>1</sup>. One year is not necessarily a trend in either direction; we have to see what lies ahead, and of course, no current study shows the turnover of minorities, which I believe is still very high compared to those of non-minorities.

The number of professional staff and partners speak quite plainly about how far we have to go: African Americans accounted for only 2 percent of professional staff and 1 percent of all accounting firm partners in 2007. Hispanics accounted for 3 percent of professional staff and 2 percent of partners. African Americans also accounted for only about 1 percent of all CPAs in 2007 and Hispanics accounted for 2 percent.<sup>2</sup>

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<sup>1</sup> AICPA, "2008 Trends in Supply of Accounting Graduates and the Demand for Public Accounting Recruits, p. 47, 2008

<sup>2</sup> Ibid. p. 60 and p. 61

Clearly, something is not working. Let me share with you a few thoughts about where we are falling short and how we might begin to fix the problems.

I believe the core challenge– and a very difficult one – is to change perceptions both within the accounting firms and also among African Americans about their ability to succeed in the accounting profession.

As a group, African Americans are not yet fully convinced that the accounting profession wants them. Last year's CPA Examination Summit, co-sponsored by CAE and NABA, concluded that among African Americans "there is a perception of restricted access to partnership opportunities and leadership positions." This challenge may present something of a "Catch 22." Because they do not see many African Americans at the manager or partner level, too many younger African Americans do not aspire to become a manager or partner. Instead, they opt out of the profession to follow other career paths. Indeed, recent data from AICPA shows that African Americans may be unique among minorities in turning their back on the public accounting profession.

Among new accounting graduates, AICPA reports that 30 percent of whites, 33 percent of Asian Americans and 37 percent of Hispanics took jobs in the public accounting sector in 2007. But only 19 percent of African Americans with new bachelor degrees chose public accounting.<sup>3</sup> It will take a lot of work marketing our profession to change those numbers. But again, by increasing the number of African Americans at the manager and partner levels, as well as partners in leadership positions, this trend will be reversed.

The same calculation appears to discourage African American accountants, as a group, from sitting for the CPA exam. Earning the CPA certification takes a lot of extra time and energy after college. If a young African American thinks he or she cannot move up the professional ladder or make partner because of their race, they are much less likely to see the value in working toward their CPA certification.

African Americans will continue to be under-represented among accounting firm partners until a sufficient number enter the profession and *stay* in the profession long enough to rise to partner rank. What we need is a larger pool of pioneers with the desire, the self-assurance, and the perseverance to earn partnership.

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<sup>3</sup> Ibid. p. 38

Let me emphasize, increasing the number of African American new hires is just the first step. We also must make sure that a growing number of African Americans sit for the CPA exam as early in their career as possible. To achieve our long term goals for minority representation in our profession, we must be laser-focused on retention.

I believe the Committee can make this point more clearly by expanding the sub-recommendations under Recommendation 2 to add emphasis to the area of retention. Recommendation 2 states that the profession should “Improve the representation and retention of minorities in the auditing profession.” However, none of the following sub-recommendations (a) to (d) deal specifically with the issue of retention.

Absent greater emphasis on retention, I worry that the profession may misconstrue the Committee’s meaning and conclude that additional work on retention is not necessary. But I feel strongly that retention and recruitment are equally important elements of any effort to expand the presence of minorities in the auditing profession. In fact, I believe that implementation of the Committee’s recruitment recommendations 2(a), 2(b), and 2(c) will make retention initiatives even more important. Those recommendations – that the profession reach out to less traditional sources of talent – are creative and insightful. But because they appeal to students who may not be as well grounded in accounting as new hires from the leading academic accounting programs, recruits from these sources may need extra support once they enter the profession.

The Committee should consider expanded retention recommendations that encourage the firms to build the confidence of their minority hires from day one. This is important regardless of the college or university the new hire graduated from. Retention programs that the firms implement should have the following at their core:

- Mentoring, as in a “sponsor” or an “advocate” for the minority
- Challenging client assignments
- Supportive and nurturing networks
- Visible role models

An accounting degree is a valued credential that opens many career paths outside of the accounting firms, and those other paths may seem less burdensome in many respects than an auditing career. As a result, our profession is losing young African Americans to other lines of work, especially in the financial

services industry, where salaries are high and an accountant can advance without the work required to earn a CPA designation.

The numbers speak loudly. A recent survey of African American accountants conducted by CAE showed that 65 percent have been with their current employer for three years or less. Only 18 percent have worked with the same firm for more than five years.<sup>4</sup> Making partner typically takes 11- to -15 years. With most African Americans leaving their firms after only a few years, it is going to be very hard to significantly raise the number that achieve partner status. It is not enough to just seek new sources of minorities to bring into the profession; we also must keep them there.

To reach our collective goals, “retention” must become part of a company’s corporate culture and it must be supported by a commitment that is **sustained** through many generations of corporate leadership. Quite frankly, I believe one reason that we have lagged in retention is because the fruits are not seen for 10 or 15 years. A firm’s leadership can change several times over that period and the leaders do not earn credit for the slow work of retention. Amid the day-to-day pressure for results, even the best motivated leadership may sometimes lose enthusiasm for long lead projects that will not yield visible returns for years to come. Somehow, we must find ways to recognize and reward the leaders who make retention a truly high priority and drive their firm to stick with it year-in and year-out.

At their heart, I believe successful retention efforts are largely about building young workers’ belief that they *can* succeed and advance.

For many minority workers, confidence is fragile. They may be the first in their family to earn a college degree. Some graduates of Historically Black Colleges and Universities may be intimidated by competing against graduates of elite universities for the first time. In some cases, minorities graduating from elite universities may perceive that they are being singled out as a “minority” within the workplace and they will feel the sting of various biases that go with that status. It’s a feeling they may not have experienced during their time in college. Self-belief can be sapped by the sense that they are the subject of race-based stereotypes that are reflected in their performance evaluations. Enthusiasm can wane when it seems that white colleagues are moving ahead faster while doing work that is no better than your own.

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<sup>4</sup> The Center for Accounting Education, Howard University School of Business, “The Professional Experiences of African-American Accountants, Published Tables”, Table 9, September 15, 2005

Sadly, I have seen this stereotyping happen to many of my outstanding students, who often contact me for career advice or to share job-related experiences.

**Indeed, surveys show that large percentages of minorities believe they have to work twice as hard as white colleagues to earn equal recognition.<sup>5</sup> Minorities often feel that they have to prove they can do the job right, while their white colleagues have to prove they *cannot* do it.**

For many African Americans, these factors combine to drain confidence and feed doubt. The fact is that large numbers of African Americans avoid certain challenges because of fear. In a 2007 survey by CAE, 57 percent of African Americans conceded that their feelings about taking the CPA exam were at least somewhat influenced by a fear of failure.<sup>6</sup>

That is why I believe that the auditing firms need to establish aggressive retention programs that focus on confidence. In my mind, the single greatest source of confidence is a good mentor. Unless you have been blessed with a truly strong mentor, it may be hard to understand how beneficial it is. I was fortunate enough to have three individuals at the old Peat Marwick, who at different times took me under their wing and showed me the ropes. Their mentorship went far beyond timely advice or pointers about how to get along. These gentlemen became advocates on my behalf. They were the invisible hands who made sure that I received a chance to develop and display my abilities. For some reason, they believed I had potential and they kept pushing me forward – not with awards or certificates or plaques, but with solid work opportunities that gave me the chance to sink or swim on my own merits.

Many accounting firms now have official mentoring programs so that younger workers have a specific place to turn for guidance and counsel. These are worthy programs and, no doubt, they help develop bonds across generational and racial lines. But having an assigned mentor is simply not the same as having a real advocate in your corner. I believe firms should challenge their partners and senior managers to identify promising young employees, especially minority employees, and become true advocates who actively look out for their charges' career interest and become role models that transcend race.

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<sup>5</sup> The Center for Accounting Education, Howard University School of Business, NABA Membership Survey, "Analysis of Work Experience of NABA Members," Table 3, September 15, 2006

<sup>6</sup> The Center for Accounting Education, Howard University School of Business, "2007 CPA Examination Summit: Insights Into Increasing the Number of African American CPAs," p. 5, June 22, 2007



I should add that the young minority person must do his or her part, too, and respond to opportunity by doing the best work possible. A mentor can help open doors. Once the door is open, people must deliver the goods.

In the end, some young employees will disappoint us. But I believe that most will measure up. I also believe that a younger worker who has a real advocate and role model working on his or her behalf, will be much more likely to stay in the profession and try to duplicate the role model's success. I cannot think of anything that will boost retention more than helping to improve the self-belief of a younger minority worker by having a senior member of the firm take a personal interest in his or her success.

Right now, I do not believe we are taking full advantage of the power of true mentorship. Indeed, almost six out of ten NABA members surveyed report that their closest mentors have come from outside of the profession.<sup>7</sup> That is unacceptable.

The other area I'd like to focus on is addressing potential shortfalls in accounting faculty at colleges and universities, especially the opportunity to draw from the life experience of auditing professionals and introduce it into the classroom.

As the Committee notes in its draft report, the future of our profession and the quality of the audits we provide face a potentially serious risk because of a decline in the number of accounting faculty at the same time that we need to train a greater number of accountants. Nothing good can come from trends that will mean too many accounting students, crammed into overflowing classrooms, and directed by teachers who are stretched too thin to provide the personalized feedback that serves students best. Equally troubling, considering the need to increase the ranks of auditors, I have read that some schools have begun turning away qualified applicants because a shortage of faculty limits the number of students the school can serve.

As we all know, accounting involves numbers and how to understand what they say. But in a world in which new and complex financial instruments are created almost daily, our profession increasingly requires an enormous amount of judgment. To some extent, the ability to make those judgments comes from real world engagements under the guidance of more experienced auditors. But that process must

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<sup>7</sup> Ibid. Table 23

begin in the classroom with direction from qualified and creative instructors who can help students develop the critical faculties and mindset that are so critical to effective auditing.

I am convinced that this challenge presents us with the opportunity to turn lemons into lemonade by using one of our profession's greatest untapped resources – the experience of our own people and their desire to share what they know with aspiring young professionals. From my personal experience as a visiting professor at Howard University, I can tell you that few things in life are as gratifying as passing on knowledge to a new generation. For almost four decades, I worked as an auditor at the highest level of my profession, reviewing the accounts of some of America's most important companies. I'd like to think that I picked up some useful lessons during that time; keeping that knowledge to myself would be a wasted resource.

There are a lot of people like me working in America's audit firms; people with vast experience who can help students bridge the gap between the theory of the classroom and the daily realities of working with clients. Combining this group of teachers with the full- time tenured professionals already on campus means future auditors can acquire both "book smarts" and "street smarts."

Whether approaching retirement from their auditing work or merely looking for a new mid-career challenge, large numbers of experienced auditors would love the opportunity to walk into college classrooms and engage directly with young people. As the Committee has recommended, we can "raise the number of professionally qualified faculty." Or, and these are my words, we can turn our back on this resource and tell them to go play golf. I think the right answer is obvious.

Frankly, inviting more qualified professionals onto campus also is something of a "quick fix." Happily, it is a quick fix that can *expand* the resources available to students, not one that diminishes quality. With the help of funding from the profession, from the investment and financial communities that rely on quality audits and from public sources, colleges and universities should open their doors wider to qualified professionals and invite them onto the campus. And, let's be clear, they should do so with the understanding that this group of teachers is not likely to add the letters PhD after their name. These qualified professionals will have to be accepted as they are because we need more faculty *now*. Most people at this stage of their career will not run out and begin working toward their doctoral degree.

Of course, nothing is ever quite that simple. We know that flooding a campus with non-doctoral faculty can create tensions and can even threaten a school's accreditation. If handled poorly, we may create a divide between the visiting faculty members, who do not hold doctoral degrees, and those who have made teaching their life's work and put in the long, hard work of earning their PhD.

We also need many, many more doctoral level teachers. That's a longer term challenge because earning a PhD takes many years of work. As the Committee notes in its draft report, we need to create financial and other incentives so that a larger number of talented individuals will choose accounting professorships as their life's work. Right now, our PhD pipeline is alarmingly low, especially in auditing. To achieve this goal, we will need sustained commitments of money and enthusiasm from all segments of the financial marketplace and the government.

And, just as it is important for young minority accountants to have role models once they enter the profession, it also is important that they have role models on campus. As we work to increase the number of doctoral candidates in accounting, we must make sure that minorities are well represented among that group of future PhDs. As the Committee notes in its draft report, the PhD Project established by the KPMG Foundation in 1994 has achieved considerable success in expanding the number of minority professors at U.S. business schools. I am pleased to say that I was a member of the Foundation Board when we started that program. We must continue to build on that success through expanded support for the PhD Project and similar initiatives.

Before leaving the subject of education, I would like to add an observation about recommendation 5, which calls for a joint study by AICPA and AAA of the education structure for the accounting profession.

I believe it is important to keep an open mind and to constantly review possible enhancements in the way we prepare new entrants into the accounting profession. However, I would be concerned should such a commission come back with a proposal to extend the time that young people must spend in school before they can enter the accounting profession.

Paying for college is already a burden for many students. As noted by the Committee's draft report, the accounting profession is already struggling to recruit a diverse work force. I worry that adding new education requirements without strong proof of their benefit could make it even harder to recruit students from the less affluent part of our society, which includes a disproportionate number of minority citizens.

Expanded education requirements also would burden white students whose families are less well off, and could tend to make the accounting profession a preserve for wealthier Americans.

Once again, let me say that I believe the Committee has done outstanding work. But some measures are more important than others and some can be expanded. Based on my experience, as an audit firm partner and also as a professor of accounting, I would like to close by summarizing my views.

Our profession, other financial market participants, and public policymakers need to commit to a long-term sustained effort – not only to attract minorities to auditing, but also to retain them and make sure they have the opportunity to advance to the profession's highest ranks.

We must change perceptions, so that minorities can plainly see a career path with an upward trajectory. I am confident that if minorities believe they have real opportunity, they will commit to our profession in larger numbers and put in the hard work to sit for the CPA exam and to succeed.

Our profession should take steps, such as strong mentoring programs, to build confidence among minority accountants that they will receive an opportunity to display their talents. And, let me say again: mentoring is more than offering a few words of advice. I succeeded in my career, in part, because senior members of Peat Marwick took the time to actively open doors on my behalf.

Finally, as I've noted, we need to make sure that every accounting student gets the educational preparation he or she needs. We need to increase the number of doctoral students studying accounting. I also believe, as strongly as I can state, that we need to complement the full time faculty by welcoming more professionally qualified teachers who can bring their real life experience into the classroom.

I hope my comments today will be helpful to the Committee as it prepares its final report. I am honored to have this opportunity, and I would be delighted to talk with you further if that would be beneficial.

Thank you.